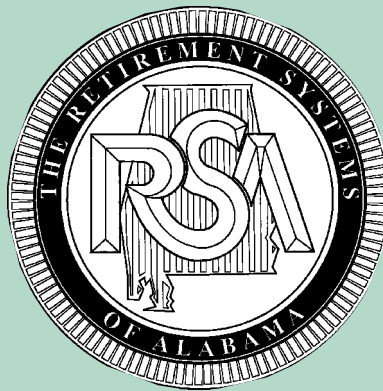


**THE  
EMPLOYEES'  
RETIREMENT  
SYSTEM  
OF  
ALABAMA**



**PUBLIC  
ORGANIZATIONS**

**2001**

**THE EMPLOYEES' RETIREMENT SYSTEM  
OF ALABAMA**

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THE EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA (ERS) was established October 1, 1945, by the State Legislature for the purpose of administering a retirement plan for State employees and employees of public agencies that elect to join the ERS. The information in this brochure is provided as a general reference to the laws governing the ERS.

**Because the laws governing the ERS are subject to change, do not rely solely on the information in this brochure to make the decision regarding your agency's participation in the ERS.**

## INTRODUCTION TO THE EMPLOYEES' RETIREMENT SYSTEM

Benefits are calculated as a percentage of average final compensation multiplied by years of creditable service. In addition to the monthly benefit paid to members who meet the minimum requirements for service retirement, disability retirement and in-service death benefits are also part of the ERS benefit structure.

The plan requires that contributions be deducted from the earnable compensation of each individual member at a rate set by the legislature. Currently, this rate is 5% for all ERS members except for full-time, certified firefighters, correctional officers and law enforcement officers, who contribute 6% of earnable compensation. This contribution may be tax-sheltered at the option of the agency's governing board. The employer's contribution rate is set by the system's actuary after a valuation of the employer's assets and liabilities. To ensure soundness, the plan is required by law to have an annual actuarial valuation of the assets and liabilities of the System to determine, on the basis of actual experience, if any changes in the employer's contributions are necessary. Based on the actuarial valuation, the contribution rate of the employer is adjusted from time to time to ensure that as members retire, the contributions of members and employers, together with the investment earnings, will be sufficient to pay the benefits provided under the retirement plan.

**It is important to understand that a public organization that elects to participate in the ERS is solely responsible for funding the benefits for its employees and retirees. The ERS is not liable for the payment of benefits that are not funded by the employer. An agreement to participate in the ERS is irrevocable except in certain statutorily specified circumstances.**

## PROCEDURE FOR PARTICIPATION

The governing board of any county, city, or public organization which desires to have its officers and employees become members of the ERS must request and pay for an actuarial valuation to determine the cost of participation. **All eligible employees must be included in the actuarial valuation.**

## EMPLOYER COST

The cost to the employer for participation is determined by an actuarial valuation.

The valuation consists of four parts:

- A. The percentage of the payroll required to supplement the member's contributions is called the *normal contribution rate*.
- B. The percentage of the payroll required to pay for all prior service credit and the predicted experiences of the group is called the *accrued liability rate*. This rate varies with each participating employer and is the rate required to fund the crediting of service rendered by each employee prior to the date the employer unit begins participating. The accrued liability rate is usually determined on the basis of a liquidation period equal to the average future working lifetime of the active membership.
- C. A percentage of payroll is required for the cost of the administration of the ERS.
- D. A percentage of payroll is also required to fund the in-service death benefit.

The approximate costs for an actuarial valuation are as follows:

<b>Number of Employees</b>	<b>Cost</b>
8 or fewer	\$15 per employee
9 or more	\$100 plus \$3 per employee

## **RESOLUTION**

The governing board must submit to the ERS a legally adopted resolution which conforms to the rules prescribed by the Board of Control of the ERS. The resolution should contain:

1. Effective date of coverage which shall be the first of any month.
2. Description of employees to be covered.
  - a. All full-time employees.
  - b. All employees who work half-time or more and earn at least the federal minimum wage must be covered. (Temporary employees, including CETA workers, certain elected officials and employees who are active members of the Teachers' Retirement System (TRS) or who are covered by another publicly funded retirement or supernumerary plan are not eligible to participate.)
3. Agreement to certify as creditable prior service all service rendered to the organization for all periods of employment dating prior to the date of initial participation in the ERS for all individuals who are in the employ of the organization on the initial participation date and who elect to join the ERS within one year thereafter.

4. Agreement to make accrued liability contributions for prior service credits awarded to employees.
5. Agreement to make all other employer contributions for employees who become members.
6. Agreement to submit all information as required by the Board of Control.

A model resolution will be provided to each prospective member unit along with the results of the required actuarial study performed for each unit.

### **COMPULSORY MEMBERSHIP FOR NEW EMPLOYEES**

Membership in the ERS shall be optional for agency employees who are in-service on the effective date of participation of the county, city, or town, etc. Any such employee (non-member) who elects to join the ERS within one year thereafter shall be entitled to prior service, but not to service which has accrued from the effective date of participation of the unit. Membership shall be compulsory for all employees entering the service of such employer after the effective date of participation if such employees meet minimum requirements for membership.

To meet the minimum requirements for participation in the ERS, a person must be employed in a position eligible for coverage in a non-temporary capacity on at least a one-half time basis earning at least the federal minimum wage. Once enrolled, the member must continue participation until employment is terminated.

## REQUIREMENTS FOR RETIREMENT

The minimum requirement for service retirement is age 60 with 10 or more years of creditable service or 25 or more years of creditable service regardless of age. A disability retirement allowance may be granted to a member who is *in-service* with 10 or more years of creditable service and who, in the opinion of the Medical Board of the ERS, is permanently incapacitated for the further performance of current duties. A member with 10 years of membership service is a vested member of the ERS. Should a vested member become inactive, yet leave contributions in the ERS, he or she is eligible for monthly retirement benefits following his or her 60th birthday and proper application.

## RETIREMENT ALLOWANCE

The life-time **Maximum** retirement allowance consists of a calculation which allows a member 2.0125% of the average final salary for each year of creditable service. The average final salary is an average of the highest three annual salaries in the last ten years of service. If the **Maximum** benefit is selected at retirement, all benefits cease upon the member's death.

### RETIREMENT FORMULA

*Average Final Salary	Years (and x Partial Years) of Creditable Service	Benefit Factor 2.0125% (.020125)	=	Maximum Annual ÷ 12 = Benefit	Maximum Monthly Benefit
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\* The average of the three highest years (October-September) out of the last 10 during which the member contributed.

A member can provide for a beneficiary by selecting one of the options, which is a reduction from the *Maximum*. Actuarial tables must be consulted in order to determine the benefit under each of these options.

### **Option I**

The retired member receives less money each month than under the *Maximum* with monthly benefits ceasing upon the member's death. If the retired member should die prior to having depleted his or her own funds in the Annuity Reserve, the balance would be payable to a beneficiary in a lump sum.

### **Option II**

A member, at the time of retirement, may elect to receive a reduced retirement allowance which will be continued throughout the member's life and, subsequent to the member's death, paid to the member's designated beneficiary throughout his or her life. The computed benefits are based on two lives with variance in age and, therefore, it is not possible to change the beneficiary after the effective date of retirement, unless the beneficiary predeceases the retired member or if the retired member and designated beneficiary become divorced.

### **Option III**

A member, at the time of retirement, may elect to receive a reduced retirement allowance payable throughout the life of the member, and upon the member's death, one-half of the retirement allowance would be paid to the member's designated beneficiary throughout his or her life. The computed benefits are based on two lives with variance in age and, therefore, it is not possible to change the beneficiary after the effective date of retirement, unless the beneficiary predeceases the retired member or if the retired member and designated beneficiary become divorced.

### **Option IV**

A member, at the time of retirement, may elect to receive some other monthly benefit that



would be the actuarial equivalent of the regular retirement allowance. ERS Board of Control approval is required. This option is tailored to the desire of the individual within the System's actuarial assumptions. The survivor benefit may not exceed the Option II benefit.

## **ADDITIONAL RETIREMENT PROVISIONS**

The law also includes the following provisions affecting retirement rights:

### **Military Service**

Previous honorable, active service in the armed forces of the United States is eligible for purchase if the member is not currently receiving service retirement benefits from any branch of the U. S. Armed Forces other than benefits received exclusively as payment for a service-connected disability. Weekend service and summer camp service with the National Guard and the Reserves are not eligible. Members are limited to a maximum of four years of military service credit. The cost of military service is a 4% contribution based on the average salary paid an Alabama state employee during each year of claimed service plus 8% interest compounded from the last date of service to the date of payment. A member has one year from the date of enrollment in the ERS to make the lump sum payment to gain credit for military service provided the member has had no previous period of eligibility under Section 36-27-4 (d), Code of Alabama 1975.

### **Withdrawn Service**

Members who were previously members of the ERS or TRS and withdrew their contributions thereby canceling retirement service credit may restore such credit after again becoming a member and accumulating two years of contributing membership service. Upon completion of the two years, the member must make a lump sum

payment of the withdrawn amount plus 8% compounded from the date of withdrawal to the date of repayment. Payment must be made prior to the effective date of retirement.

#### **Out-of-State Service**

Members who have a minimum of 10 years contributing membership service in the ERS, exclusive of any purchased military or TRS transferred service, may purchase a maximum of 10 years of out-of-state public employee or teaching service that was previously credited under another public retirement plan but does not qualify the member for benefits from the other plan. Also, employment in Alabama as a support employee and/or teacher aide in public education, or regular full-time employment with the Teacher Corps may be purchased.

#### **Unused Accrued Sick Leave**

The agency's governing board may elect to to adopt the provisions of Act 88-904 to allow for the conversion of unused accrued sick leave as additional service credit at retirement. The accrual limits of the employing agency determines the maximum number of days that may be converted.

The following chart is used by the ERS to convert accumulated sick leave days to months of service credit upon service retirement. An ERS member retiring on disability who does not meet the minimum requirements for service retirement is **not** eligible to convert sick leave to retirement credit.

### Sick Leave Conversion Chart

Accumulated Sick Leave Days	Months of Service Credit	Accumulated Sick Leave Days	Months of Service Credit
0 - 10	0	191 - 210	10
11 - 30	1	211 - 230	11
31 - 50	2	231 - 250	12
51 - 70	3	251 - 270	13
71 - 90	4	271 - 290	14
91 - 110	5	291 - 310	15
111 - 130	6	311 - 330	16
131 - 150	7	331 - 350	17
151 - 170	8	351 - 370	18
171 - 190	9		

### SEPARATION FROM SERVICE

Any member who terminates employment with a member agency is entitled to withdraw his or her own contributions with allowable interest or in case of the member's death, the contributions and interest and the appropriate preretirement death benefit will be paid to his or her beneficiary or estate. A member with at least 10 years of creditable service at the time of departure from active service may make application for monthly benefits upon reaching age 60 if member contributions are left in the System.

### AFTER RETIREMENT

#### Cost-of-Living Adjustments

Cost-of-living adjustments (COLA's) to retirement benefit payments are granted on an *ad hoc* basis by the state legislature. Also, such legislation usually provides that the retired member shall receive an increase authorized by legislation only if the governing board from which the member retired elects to grant and fund the increase.

## PRERETIREMENT DEATH BENEFITS

Preretirement death benefits for which the beneficiary or estate of a deceased member may be eligible are outlined in the following chart:

DEATH BEFORE RETIREMENT CHART			
Example	Member Age	Years Service	Benefit Payable if Member Dies Before Retirement
A	Over 60*  or  Any Age	10 or more  or  25 or more	Choice of (1) Option 3 benefit (50% allowance) to spouse unless member designated another person or (2) return of member contributions and total earned interest plus death benefit equal to the salary on which member made retirement contributions for the prior fiscal year. (Oct. - Sept.)
B**	Less than 60* or over 60*	Between 1 & 25 or Between 1 & 10	Return of member contributions and total earned interest plus death benefit equal to the salary on which the member made retirement contributions for the prior fiscal year. (Oct. - Sept.)
C**	Any Age	Less than 1 year, death job-related	Return of member contributions and total earned interest plus death benefit equal to annual earnable compensation of member at time death occurs.
D	Any Age	Less than 1 year, death not job related	Return of member contributions and total earned interest plus matching death benefit which is limited to \$5,000 maximum.

**Note:** If no individual has been designated as beneficiary and there is no spouse, the appropriate lump sum payment will be made.

\*Age 52 for State Police members.

\*\* If death occurs more than 180 calendar days after the member's last day in pay status or if the deceased had applied for a refund of contributions or terminated employment, the lump sum payment will be the same as shown in Example D.